

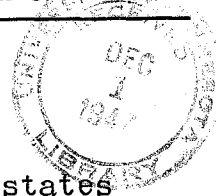
Human Events *A Weekly Analysis for the American Citizen*

Editorial Office 1323 M STREET, WASHINGTON 5, D. C. Telephone NATIONAL 2066

VOL. IV, NO. 48, Issue Number 200, NOVEMBER 26, 1947 ★ Editors: FELIX MORLEY & FRANK C. HANIGHEN

DEWEY OUT-CENTRALIZES HAMILTON

by Frank Chodorov



The unique American experiment of a union of independent states was not finished by civil war, but rather by the Sixteenth Amendment. The "War Between the States" settled the question of the right of secession, leaving the autonomy of the states in other matters where it was. Federal income taxation, however, destroyed the integrity of the states by abolishing their "commonwealth" status.

With the advent of the Federal income tax, local loyalty was reduced to nostalgia. The stronger allegiance went toward the power which laid claim to a man's wealth, no matter where earned, and to which he must apply for exemptions to live by. Political adherence is largely a fiscal matter.

The state governments, having lost their hitherto exclusive power of direct taxation, as prescribed in the original Constitution, were forced by fiscal exigencies to permit Federal intrusion into local matters; like education, road building, etc. In fact, they got into the habit of inviting Federal aid as circumstances demanded, and every handout inevitably cost them some of their independence. Hearts and hands turned ineluctably toward the Mecca of subsidies and bounties, made possible by the revenue from income taxation.

Thus, the problem which plagued the Founders -- the imperium in imperio -- was solved by the Sixteenth Amendment.

It remained for Governor Thomas E. Dewey of New York inadvertently to apply the coup de grace to the idea of Federation. Last July 14, at the Governors' Conference at Salt Lake City, Mr. Dewey came up with the proposal that the states relinquish to the Federal Government their power to levy on incomes, in exchange for certain indirect taxes.

This proposal, by a candidate for the Republican Presidential nomination, is significant in that it shows how far we have wandered from the original intent of the American experiment in government. The assembled governors took well to Governor Dewey's tax suggestion, and they appointed a committee to make it effective. Governor Alfred E. Driscoll of New Jersey, the chairman of this committee, informs me that

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it has met with representatives of the Senate Finance Committee, the House Ways and Means Committee and the Committee on Executive Expenditures. "It was a constructive meeting", he comments.

So, at a politically propitious time, we may expect the introduction of legislation to wipe out the last vestige of state fiscal authority by which the Founders hoped to secure the federal character of the Republic.

II

Alexander Hamilton, the genius of centralization, could not have risked the idea which Governor Dewey now sponsors. Undoubtedly Hamilton would have favored a Federal monopoly of taxation (he was for reducing the states to parish status). But the spirit of his time was violently opposed to wiping out local autonomy. The people had had enough of rule from afar, and they knew from experience how a centralized authority exercises the taxing power. The farmer and the artisan wanted governments they could keep their eyes on, or even lay their hands on, as Shays' Rebellion had shown.

Hamilton was an astute politician. While Madison and Jay and Mason weighed in with political philosophy, Hamilton concentrated on fiscal powers. He knew that the proposed government would be no stronger than its revenues, and he fought for as much as he could get without jeopardizing ratification of the Constitution.

Direct taxation was out of the question. The new government would have died a-borning had it tried to claim such power. Yet Hamilton deftly implied the threat of it in his arguments for unrestricted power to levy excise taxes, which was all that he wanted. These arguments, in the Federalist, make excellent reading today.

The two major direct taxes collected directly by the government -- rather than through the medium of merchandise prices -- are those levied on land and on incomes. Neither the owners of large estates, who supported the proposed Constitution, nor the farmers, who opposed it, would tolerate taxation on land. Hamilton, however, correctly pointed out that "if the principal part [of taxation] be not drawn from commerce it must fall with oppressive weight on land". That was sound reasoning. But, he continued, in an agrarian economy land taxes would not yield enough to carry on the business of government -- and not enough to offset the alienation of "that valuable class of citizens who are employed in the cultivation of the soil". Excellent special pleading!

Income taxation Hamilton dismissed with less argument. "The nature of popular government" is against it. Nor could much revenue be got that way. Even in England, where fortunes were larger and government stronger, income taxation yielded little and collection was difficult.

Hamilton was pleading for unlimited power to levy "internal" taxes, or excises. The backcountry farmers were opposed. Because of the difficulties of transportation they turned much of their grain into liquor, which would be a target for heavy levies. They wanted the Federal Government to confine its revenues to "external" taxes, or import duties, leaving all others to the state governments, over which they felt they could exercise some control.

III

The Founders had to bow to this jealous attachment to local prerogatives. If there was to be a union of states, a "firm league of friendship", then the separate identities of the states must be preserved; they must not be taxed into vassalage. The populous, commercial members should not be in position to vote their superior numbers against the sparsely settled agrarian states, nor should the latter be able to dip into the fortunes accumulated in the former. Hence, the provision that "direct taxes shall be apportioned among the several States . . . according to their respective numbers".

Thus, New York could not put over a land tax on Georgia without laying a correspondingly heavier burden on itself, and a levy on the incomes of Massachusetts would react proportionately on those of North Carolina. It was a "check" by which the equality of the states could be maintained.

In spite of the tenuous legal arguments which attended the introduction of the Sixteenth Amendment, the intent of this provision of the original Constitution was clearly to preserve to the various states their separate identities through their exclusive power of direct taxation. In the matter of realty taxes, this power has been preserved. The Sixteenth Amendment, much more potent in political effect, revoked it for income, and in so doing virtually liquidated the Federation.

Why, then, did the necessary two-thirds of the legislatures ratify the amendment? The answer lies in the economic history of the post-Civil War period; coupled, of course, with the political use of economic conditions.

IV

Recurrent "hard times" gave rise to such movements for relief as the Grangers and the Populist Party. Whatever other planks their economic programs contained, a call for lower tariffs was common. The farmers of the South and West reasoned that the tariffs put an unfair burden on them. They had to sell their raw products in the world market, at competitive prices, while for their manufactured needs they had to pay the protected prices favoring the East.

In 1892, Cleveland and the Democratic Party came out for lower tariffs. Coupled with this promise was the proposal to levy on incomes to offset the loss of Federal revenue. Thus, a fiscal policy was dovetailed with the "soak the rich" movement emerging from economic conditions. The politicians found a propitious tide to ride upon, the very leveling tide against which the Founders struggled. The inevitable result was the Sixteenth Amendment.

Needless to say, the protective policy was not dropped. As a matter of fact, protective tariffs started reaching for the sky shortly after the ratification of the Sixteenth Amendment. Now, in spite of reciprocal trade agreements, we have quotas, embargoes, quarantines and monetary schemes for keeping goods out of the country. All this would be impossible if the government did not have the income tax to fall back upon for revenue. Previous to 1913, customs duties provided the treasury with as much as 50 per cent of its income; in the fiscal year 1947 less than 2 per cent of the income is accounted for by these duties. If the government had to depend on import taxes to pay its bills, it could not go in for exclusion methods. It would be forced by its own necessity to maintain a policy of tariff-for-revenue-only.

While the Constitution made difficult the introduction of a Federal income tax, there was no such barrier to state income taxation. During the years 1840-1850 a half dozen states did institute it, and before the Sixteenth Amendment became the law of the land there were others. Invariably, their experience was both unpleasant and unprofitable. They had to depend on local tax-machinery, and the neighborly tax-collector proved rather lenient with his assessments and his collections. The impersonality of distance is a necessary condition of effective income taxation, particularly in a country where the dignity of the person is an article of faith.

Maybe that is why Governor Dewey would as soon turn over the whole job and the whole revenue to the Federal Government, retaining for the states the easier "imperceptible agency of taxes on consumption". But, he overlooks the fact that every increase in the power of the Federal Government to levy on the citizenry tends to reduce the states to mere administrative units of the centralized nation.

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By Frank C. Hanighen

November 25, 1947

The testimony of General Bennett Meyers has finally come to a close on Capitol Hill, attended by much natural indignation from the public and press. While editorial comments have been profuse in condemnation of the officer, we have noted few expressions of gratitude to the Senate War Investigating Committee for its labors in exposing the scandal. It was this same Committee, by the way, that received such severe criticism last summer for its handling of the Howard Hughes case. Why is dispraise so generous, praise so sparing? And why is it forgotten that the exposé of the current scandal is a Congressional investigating committee, an institution of late so widely attacked by those who generate a highly selective indignation about "civil rights"?

The hardened observer in Washington, who has watched similar situations over several decades, can hardly be blamed for taking a rather suspicious view. Meyers is a "little fellow", without much capital behind him. It is noticeable that neither Carl Byoir nor any other big public relations firm was on his retainer. The Committee's cruel probe did not touch the sensitive flesh of a billion dollar industry like Hollywood. Nor did the Committee unearth anything tangible indicating that Meyers had protectors "at a high level". Perhaps there were none; but it is a much discussed question among Capital observers as to whether or not the upper echelons of the Roosevelt Administration were involved.

Laurels, it is agreed, should go to Senator Ferguson (Mich.) for his conduct of the Meyers investigation and cross-examination. The wreaths should be all the larger in that Ferguson's operations on Hughes last summer were hardly, to say the least, successful. In justice to Ferguson, it should be said that last summer he was overburdened with work on another and unrelated investigation. Also, he was teamed with Senator Brewster, whose feud with Hughes was scarcely helpful. This time, he had a clear field and nothing else to divert his attention. But a more severe test of his talents will await him -- if and when he succeeds in exploring spheres at higher altitudes than major generals.

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The appointment of General Omar Bradley to the post of Chief of Staff was no surprise, but it drew varying reactions which have not been widely publicized. First of all, it was warmly welcomed by the Regular Army as a much-needed builder of Army morale after the devastating effects of the Bennett Meyers case. The Regular Army, particularly the Air Corps, has been deeply humiliated by the exposure of this officer. Bradley is a man of the highest integrity. Coming at this juncture, therefore, the appointment has a distinctly tonic effect.

Again, the General Staff likes it. Staff officers now feel that business will be cleared, plans carried forward, mistakes rectified and progress made throughout the Army -- as it hasn't in the past two years. It is no secret in the Pentagon that Eisenhower has not been attending to business, and that too many extra-curricular matters have diverted his attention. Bradley has no political ambitions, seeks no publicity and is a hard worker.

"He is a good General, but not a great General" -- so runs a current Army description. His record, of course, in World War II was excellent. But his attitude towards most military issues is described as "conventional". This fact, for some months, has not only inspired some reserves as to Bradley's usefulness at the present time, but also has forced the consideration of other candidates for the job.

One among several so considered was General A. C. Wedemeyer, former commander of the China-Burma theater. It is believed that the General did not seek the appointment. He is only 50 years of age and has risen from the rank of Major since

1939 to Lieutenant General today. He was no doubt aware that his appointment would stir up much jealousy and animosity among older officers. Nevertheless, it is believed that his name was seriously suggested to the White House for the job.

General MacArthur reportedly favored Wedemeyer, and at one time recommended him to President Truman. MacArthur, it is said, believes that the times require a younger man, with progressive ideas. It is known that both MacArthur and Wedemeyer are privately critical of the Universal Military Training plan (strongly supported by Eisenhower and Bradley). They believe that emphasis should be placed on Intelligence and scientific development, rather than on training a mass army -- on "preparing for the next war, not the last one". At any rate, Wedemeyer did not get the post of Chief of Staff; instead he was named to head the planning and operations section of the War Department. In this new role, his ideas may have no little influence on the shape and size of our Army.

* * * * *

Comment on the troubled French situation has emphasized too much the political situation, too little the trade union picture. While the importance of the struggle in the Assembly should not be minimized, what is going on in union halls and shop steward meetings has strong bearing on France's future. The hierarchy of the French labor federation (CGT) is Communist and has been calling the current strikes, for political, not economic reasons. But the Communist Labor bosses have met with a developing challenge among the rank and file.

When unions, nationally or locally, hold a secret-ballot strike vote, they often decide for remaining at work, in defiance of Communist influence. When the strike votes goes by "show of hands", the Communists usually win. If the political situation is stabilized, one may expect legislative proposals to regulate union methods of voting. If the anti-Communists can overthrow the power of the Communist hierarchy in the CGT, half the battle for French control of France will be won.

On the political level, the Communists' strategy is aimed at bringing General de Gaulle into power as soon as possible. Their calculation is that the General once in office will unmask his dictatorial ambitions and the popular reaction will then bring his overthrow -- with the Communists playing the chief role in such an overturn. (This strategy resembles that followed by the German Communists in 1931-32: to help put Hitler in power, with the expectation that he would soon fall.)

Unfortunately for the Communists, they are getting no help from de Gaulle. The General's political GHQ does not want to take over until spring; they prefer to see a Center Government flounder ineffectually in dealing with the Labor and general economic problems, for a few months. Meanwhile, de Gaulle has three "Trojan horses" in the new Schuman cabinet: Rene Mayer, Minister of Finance; Rene Coty, Minister of Reconstruction; and Pierre-Henri Tietgen, Minister of Armed Forces.

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Need for strategic raw materials is beginning to have an influence on our foreign policy. The Herter Committee has recommended that European nations should pay at least in part for American aid by giving the United States access to strategic materials in three specific areas: Labrador, iron ore; Venezuela, British oil holdings; and New Caledonia (French), nickel. Senator Vandenberg has made a somewhat similar plea in more general terms.

It is not widely known, however, that the U. S. Government has already taken concrete steps in this quest for raw materials. The State Department opposed in UN the move by the Union of South Africa to obtain the Southwest Africa mandate.

There was much fine talk about South Africa's mistreatment of negroes and East Indians. But the underlying reason for this U. S. policy was to keep the Union from taking the diamond mines in the mandated territory. There is a great demand for industrial diamonds, and the United States would like to see American exploitation of these Southwest African riches. If the South African diamond syndicate should obtain control of these mines, they would restrict production.

Another case is Madagascar, now so ravaged by civil war that the rich graphite mines are operating at a low level. State Department influence has been enlisted by American business men to persuade the French Government to assist as much as possible the resumption of graphite extraction. This mineral is high on our list of strategic materials.

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After the Gravesend by-election in England, there will be much discussion of the question: What should be the role of the Labour Party? The Economist has a provocative answer:

"Although the Labour Government has done far from well, it will turn out to be a good thing that it has been there these past two years. And, by the same token, it is better that it should stay in office. . . . A coalition would merely be a dilution of responsibility and would still further diminish and retard the Government's power of decision. A General Election, followed by a Conservative Government, would be resented as a repetition of the trick of 1931 and be used by the Labour Party ever afterwards as an all-embracing alibi. If there were, waiting in the wings, an alternative Government, equipped with a clear and contrasting policy which would certainly be better, if the return of the Conservative Government would alter any of the fundamental factors in the national crisis, if it would mine more coal or sell more exports or secure more dollars -- it might then be right to snatch at the immediate advantage.

"But doubts hang over all these things, and the present Government are slowly being forced into doing the only thing that a Conservative Government could do at once -- that is, initiate a sharp bout of disinflation. And while the advantages of a change are problematical, there is one great advantage to be derived from the Labour Party remaining in office. If they go on as they have been going, they will be soundly beaten at the next election. But that will not finish the Labour Party; it will continue to govern the country, in alternation with the Conservatives, for a long time to come. That being so, the more it has its nose held down to the grindstone of factual reality, the more sentimental nonsense is squeezed out of its beliefs, the more ideological delusions it is compelled to abandon, the better for everybody. All things considered, it is best that the education of the Labour Party should continue."

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Four hundred and eighty prominent persons have addressed a joint letter to President Truman asking him to declare a general amnesty for conscientious objectors and violators of the Selective Service Law. "It is a deep disappointment to us", the letter said, "that more than two years after the end of the war and seven months after the expiration of the Selective Training and Service Act of 1940, no amnesty has been granted conscientious objectors, Jehovah's Witnesses, and other persons convicted of violating that law. Seven hundred men remain in prison, while thousands already released are still without valuable civil rights. Hundreds continue under the restrictions of probation, parole and conditional release. . . . It is an injury to the cause of democracy and the prestige of our nation that here men who suffered for conscience' sake should at this date still be imprisoned and deprived of precious rights."

Book Events

The Foreign Policy of Soviet Russia (Vol. I, 1929-36), by Max Belloff. London and New York: Oxford University Press. Price not indicated. ---- The United States and Russia, by Vera Michaels Dean. Cambridge, Massachusetts: Harvard University Press, \$3.00. ---- Pattern for World Revolution, by "Ypsilon". Chicago: Ziff-Davis Publishing Company, \$3.50. Reviewed by J. M. Lalley.

Here we have three analyses of Russian diplomacy, one curiously dispassionate and objective, another rather sympathetic to the ethos and aspirations of the Kremlin, and the third bitterly hostile to them. Yet each in its own way tends to strengthen the notion that the interest of Russia in world peace is in direct ratio to the number and power of her potential adversaries. The first volume of Mr. Belloff's scholarly and systematic study covers only the period between the beginning of the first five year plan and the rise of the popular front, after the hope of world revolution had been abandoned and the doctrine of "Socialism in one country" had become de fide. In that period the trend of Soviet policy was generally pacifistic. It was the era of M. Litvinoff and of rapprochement with the capitalist States. But as the Soviet industrial and military strength increased, while progressive disarmament remained the doctrine of the West, a note of arrogance again became noticeable in the Russian utterances. Stalin began to boast of what would happen to those who might dare "to poke their pig's snout into our Soviet garden". Even the triumph of Hitler in Germany was regarded for a time with complacency by the Bolshevik leaders, but presently they began to take alarm, and at that point the Kremlin sought to join forces with those who were opposing the revision of the peace treaties of 1919 and 1920. This was the era of "collective security". The Communist parties in all Western countries suddenly became intensely nationalistic; Comrade Browder began to evoke the Spirit of 1776 and Comrade Thorez, the Spirit of 1789.

Mrs. Dean deals with the period since Russia achieved a place as one of the two Great Powers of the earth. In the light of this new dignity, it seems, the Soviet rulers have resurrected and dusted off all the ambitions of the more ambitious Czars, and added to them a good many new ones of their own devising. A Russian by birth, Mrs. Dean admiringly compares the Soviet diplomacy to a chess game, for in Russia, she tells us, chess is "the most popular national sport". Thus when the United States and Great Britain object to Russian control of the Dardanelles, the Russians counter with a demand for the internationalization of the Suez and Panama canals and of the Straits of Gibraltar. Sometimes, of course, the Russians move out of turn, as when they demanded and got the Kuriles because they knew that the United States intended to take some of the Pacific islands which had formerly been given to the Japanese under mandate. Mrs. Dean thinks the only way to beat this chess game is to hand over all the pieces, red and white, to the Russians; in other words for Great Britain and the United States to surrender any further claims "to the rights and privileges of Great Powers". That, of course, would put them "in a strong strategic position to demand a similar selflessness from Russia". The principle, if I grasp it, is that, since it takes two to play chess, the Russians will then lose all interest in power politics. But in the end Mrs. Dean is rather discouraging. In an unguarded moment in her discussion of whether war is inevitable, she tells us that the Russians certainly consider it so.

Of the three books, Pattern for World Revolution is by much the most interesting and encouraging. It is primarily a history of the Comintern and its leaders, living and dead, by two apostate German Communists whose identities are concealed in the pseudonym. As far as it concerns Soviet policy in the present world, its importance lies in the revelation that in the matter of statecraft the new Machiavellis of the Kremlin are quite as crude and stupid as our own fellows.